

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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TO SECSTATE WASHDC PRIORITY 1056

INFO AMEMBASSY BOGOTA PRIORITY

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EO 11652: N/A

TAGS: ECON, PINT, CO

SUBJECT: ANTIOQUIAN ECONOMIC LEADERS EXPRESS GROWING CONCERN
OVER CURRENT ECONOMIC SITUATION AND PROSPECTS

REF: (A) MEDELLIN 363, NOV. 20, 1974; (B) MED 0038

SUMMARY: ANTIOQUIAN ECONOMIC LEADERS ARE BECOMING
INCREASINGLY CONCERNED OVER THE CONTINUING COLOMBIAN ECONOMIC
SLUMP AND ARE DISMAYED THAT THEY SEE NO SIGNS OF THE LOPEZ
ADMINISTRATION PLANNING ANY SIGNIFICANT CHANGES IN CURRENT
ECONOMIC POLICY. THEY COMPLAIN OF LAGGING DOMESTIC DEMAND
AND SALES, CONTINUING INFLATION, LACK OF CREDIT AT REASONABLE
COSTS, DECLINING EXPORTS AND EXPORT PROFITABILITY, GROWING
ACCOUNTS RECEIVABLE, SHARP JUMP IN TAXES AND LACK OF
INVESTMENT CAPITAL AND INVESTOR INTEREST. THE KEY TEXTILE
INDUSTRY REMAINS IN THE DOLDRUMS, DESPITE SPECIFIC GOC MEASURES
TO ASSIST IT. THE CONSTRUCTION INDUSTRY IS OPTIMISTIC
BECAUSE OF THE FLOW OF MONEY TO UPACS. LABOR LEADERS STILL
EXPRESS CONFIDENCE IN THE LOPEZ ADMINISTRATION BUT WANT
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RELIEF FROM IMMEDIATE PROBLEMS OF INFLATION AND UNEMPLOYMENT.

A SIZABLE MINORITY OF ECONOMIC ELITE OPINION CONTINUES TO SUPPORT THE LOPEZ ECONOMIC POLICIES AS BEING ESSENTIALLY SOUND, HOWEVER PAINFUL IN THE SHORT-RUN. THE MORE TIME THAT PASSES WITHOUT SUBSTANTIAL INDICATIONS OF AN ECONOMIC UPTURN, THE MORE FORCEFUL WILL BECOME THE OPPOSITION IN ANTIOQUIA TO THE LOPEZ ADMINISTRATION'S ECONOMIC POLICIES.

END SUMMARY

1. THE PENDULUM OF INFORMED ECONOMIC OPINION IN ANTIOQUIA-- WHICH SWUNG FROM NEAR-PANICKY FEAR OF THE LOPEZ ADMINISTRATION IN OCTOBER 1974 TO A MORE POSITIVE AND HOPEFUL OUTLOOK IN NOVEMBER--IS ON A SWING BACK INTO CONCERN AND PESSIMISM OVER THE CURRENT ECONOMIC SITUATION AND OUTLOOK. THAT OPINION SHIFT WAS CLEARLY EVIDENCED DURING A SERIES OF INTERVIEWS WHICH THE CONSULATE HAS JUST COMPLETED WITH MORE THAN 20 MEDELLIN INDUSTRIAL, FINANCIAL COMMERCIAL AND LABOR LEADERS.

2. THE PRINCIPAL CAUSES OF THE CURRENT AND GROWING CONCERN OF THE MEDELLIN ECONOMIC ELITES ARE THAT THE ECONOMIC SLUMP HAS BEEN DEEPER AND BROADER AND HAS LASTED LONGER THAN THEY HAD HOPED, THAT INFLATION CONTINUES VIRTUALLY UNABATED, AND THAT THEY SEE NO SIGNS THE LOPEZ ADMINISTRATION IS PLANNING OR EVEN THINKING OF ANY CHANGES IN CURRENT GOVERNMENT ECONOMIC POLICIES, CHANGES WHICH THE ELITES BELIEVE ARE NEEDED URGENTLY.

3. THEIR SPECIFIC COMPLAINTS ARE MULTIPLE. THEY CONTEND THAT DOMESTIC DEMAND CONTINUES VERY LOW, AS REFLECTED BY RETAIL SALES BELOW 1974 IN REAL TERMS ACCORDING TO THE LOCAL DIRECTOR OF FENALCO. FENALCO CLAIMS THAT THE INCREASE IN MINIMUM WAGES AND THE 20 PERCENT WAGE INCREASE FOR GOVERNMENT EMPLOYEES HAVE NOT BEEN REFLECTED IN INCREASED COMMERCIAL SALES.

4. INDUSTRY REPRESENTATIVES STATE THAT THEIR DOMESTIC SALES CONTINUE TO LAG BADLY, THAT PLANT EXPANSION PLANS HAVE BEEN CALLED OFF INDEFINITELY, THAT THERE IS A SHORTAGE OF CREDIT AND WHAT CREDIT IS AVAILABLE IS ALMOST ENTIRELY THROUGH THE CERTIFICATE OF DEPOSIT MECHANISM WITH A BORROWING COST OF 29 PERCENT, THAT HARDPRESSED WHOLESALERS LIMITED OFFICIAL USE

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AND RETAILERS ARE FALLING FURTHER AND FURTHER BEHIND IN PAYING FOR MERCHANDISE, THAT THE NEW TAX REFORMS ARE BITING TOO DEEPLY ON BOTH INDIVIDUALS AND COMPANIES, FURTHER DECAPITALIZING THE INDUSTRIAL SECTOR, AND THAT POTENTIAL INVESTORS ARE PUTTING THEIR MONEY IN HIGH PAYING GOVERNMENT PAPER, CERTIFICATES OF DEPOSITS AND UPACS RATHER THAN INVESTING IN INDUSTRY.

5. INDUSTRIALISTS ENGAGED IN EXPORTS SAY THAT THEIR EXPORTS ARE OFF BADLY COMPARED TO 1974, OWING IN PART TO LOW DEMAND RESULTING FROM THE GENERALLY DEPRESSED WORLD ECONOMIC SITUATION AND IN PART TO THE FACT THAT SOME MANUFACTURERS RAISED THEIR EXPORT PRICES IN ORDER TO COMPENSATE FOR THE LOSS OF THE CAT, MAKING SOME COLOMBIAN PRODUCTS LESS COMPETITIVE. MANUFACTURERS WHOSE EXPORTS CONTAIN A SIGNIFICANT IMPORT CONTENT ARGUE THAT THE ACCELERATED DEPRECIATION OF THE PESO IS OF LITTLE HELP BECAUSE IT RESULTS IN A CONCOMITANT INCREASE IN THE COST OF IMPORT COMPONENTS.

6. THE TEXTILE INDUSTRY, BY FAR THE MOST IMPORTANT INDUSTRY IN THIS REGION, CONTINUES TO STRUGGLE, DESPITE SPECIFIC GOC MEASURES TO PROVIDE SOME RELIEF. THE GOC ASSISTED THE THREE BIG ANTIOQUIAN TEXTILE FIRMS (COLTEJER, FABRICATO, TEJCONDOR) TO REFINANCE THEIR DOLLAR DEBTS FALLING DUE THIS YEAR WHICH THE COMPANIES SIMPLY WOULD NOT HAVE BEEN ABLE TO MEET. ALSO, THE GOC IS PROVIDING ATTRACTIVE EXPORT CREDIT FACILITIES WHICH PROTECT THE INDUSTRY FROM THE FULL COST OF PESO DEVALUATION IN DOLLAR EXPORT FINANCING. HOWEVER, THE INDUSTRY'S LARGE DOLLAR DEBTS CONTINUE TO COST IT HEAVILY AS A RESULT OF THE ACCELERATED PESO DEPRECIATION. TEXTILE EXPORTS HAVE FALLEN DRAMATICALLY COMPARED TO LAST YEAR AND EXPORT PRICES HAVE ALSO PLUMMETED. SOME INDUSTRY REPRESENTATIVES INDICATE THAT THERE ARE SIGNS THE INTERNATIONAL MARKET IS BEGINNING TO BECOME MORE ACTIVE AND THAT EXPORT ORDERS ARE STARTING TO PICK UP, ALBEIT STILL AT VERY LOW PRICES. COLTEJER STATES IT IS EXPORTING AT A LOSS, AND CONTINUES TO DO SO ONLY BECAUSE NOT TO EXPORT WOULD BE EVEN MORE COSTLY. THE TEXTILE COMPANIES REPORTEDLY ARE NO LONGER ACCUMULATING ADDITIONAL UNSOLD STOCKS, WHICH REMAIN AT ABOUT DECEMBER LEVELS; HOWEVER, PRODUCTION LEVELS ARE WELL BELOW LAST YEAR. IT IS GENERALLY CONCEDED IN LIMITED OFFICIAL USE

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THE MEDELLIN BUSINESS COMMUNITY THAT THE TEXTILE COMPANIES LOST SUBSTANTIAL AMOUNTS OF MONEY DURING THE FIRST QUARTER OF 1929.

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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FM AMCONSUL MEDELLIN

TO SECSTATE WASHDC PRIORITY 1058

INFO AMEMBASSY BOGOTA PRIORITY

AMCONSUL CALI PRIORITY

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7. THE CONSTRUCTION INDUSTRY, WHICH WAS ONE OF THE FEW VOICES OF PESSIMISM LAST NOVEMBER, IS IRONICALLY NOW ONE OF THE FEW VOICES OF OPTIMISM. THE PRINCIPAL REASON IS THE SWELLING FLOW OF MONEY INTO THE UPAC SYSTEM WHICH CONSTRUCTION INDUSTRY REPRESENTATIVES HERE BELIEVE WILL SOON BE REFLECTED IN AN UPWARD SURGE OF CONSTRUCTION. WHILE GENERAL GOC PUBLIC WORKS PROGRAMS ARE LAGGING, ADVERSELY AFFECTING THE CONSTRUCTION INDUSTRY, THE GOC HOUSING AGENCY ICT CONTINUES TO BE VERY ACTIVE IN ANTIOQUIA, PROVIDING WORK FOR THE CONSTRUCTION INDUSTRY.

8. LABOR LEADERS HERE CONTINUE DOGGEDLY TO EXPRESS THEIR CONVICTION THAT OVER THE LONG-RUN THE LOPEZ ADMINISTRATION WILL BE GOOD FOR LABOR. HOWEVER, THEY ARE VERY CONCERNED OVER CURRENT UNEMPLOYMENT AND CONTINUED INFLATION WHICH THEY BELIEVE ARE BUFFETING THE WORKING CLASS VERY SEVERELY IN THE SHORT-RUN. UTRAN OFFICIALS, OFF TO CALI THIS WEEKEND FOR THE UTC CONGRESS, PLAN TO INTRODUCE RESOLUTIONS AT THE CONGRESS CALLING FOR GOC ACTION TO ASSIST LABOR DURING THE CURRENT ECONOMIC SITUATION.

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9. WITH THEIR ABOVE-DESCRIBED COMPLAINTS AND CONCERNS ABOUT THE ECONOMIC SITUATION THE ANTIOQUIAN ELITES CANNOT UNDERSTAND WHY THE GOC IS NOT "DOING SOMETHING". IN GENERAL THEY CALL FOR NEW GOC PROGRAMS TO STIMULATE DOMESTIC CONSUMER DEMAND, TO INCREASE THE AVAILABILITY AND LOWER THE COST OF CREDIT, TO REVIVIFY THE CAT OR FIND

SOME OTHER MECHANISM TO STIMULATE EXPORTS, AND TO MODIFY SOME FEATURES OF THE TAX REFORMS. WHAT THEY WANT, THEY SAY, IS A GOC INDUSTRIAL DEVELOPMENT PLAN WHICH WILL PROVIDE PRODUCTION INCENTIVES FOR INDUSTRY. THEY ARE FRUSTRATED THAT THE GOC SEEMS UNRESPONSIVE TO THEIR CONCERNS AND UNWILLING TO ENTER INTO A DIALOGUE WITH THE PRIVATE SECTOR TO SEARCH FOR ANSWERS TO NATIONAL ECONOMIC PROBLEMS.

10. WHILE THE ABOVE VIEWS REFLECT A LARGE MAJORITY (TWO-THIRDS) OF INFORMED ANTIOQUIAN ECONOMIC OPINION, A SIZABLE MINORITY CONTINUES TO VIEW THE CURRENT ADMITTEDLY UNSATISFACTORY ECONOMIC SITUATION AS A LOGICAL AND EVEN HEALTHY CONSEQUENCE OF THE GOC'S FUNDAMENTALLY SOUND ECONOMIC STABILIZATION PROGRAM. THE MINORITY POINTS OUT THAT STABILIZATION OBJECTIVES ARE NOT ACHIEVED OVERSIGHT AND THAT MOST OBSERVERS LAST YEAR HAD PREDICTED THE FIRST SIX MONTHS OF 1975 WOULD BE TOUGH GOING. THE MINORITY OPINION HOLDS THAT THE KINDS OF COMPLAINTS BEING EXPRESSED--TIGHT MONEY, HIGHER TAXES, UNEMPLOYMENT, PRODUCTION DECLINES--ARE TO BE EXPECTED IN A STABILIZATION PROGRAM INTENDED TO BRING INFLATION UNDER CONTROL. THE MINORITY VIEW SUGGESTS THAT AFTER THE CURRENT PERIOD OF STABILIZATION IS COMPLETED THE CONDITIONS WILL BE PROPITIOUS FOR MORE SOLID GROWTH DURING THE LAST HALF OF THE LOPEZ ADMINISTRATION.

11. COMMENT: THE PRINCIPAL DIFFERENCE BETWEEN THE PESSIMISTS AND THE OPTIMISTS IS NOT WHETHER THE CURRENT ECONOMIC SITUATION IN COLOMBIA IS BAD: ALL ARE AGREED THAT IT IS. THE DIFFERENCE LIES IN EXPECTATIONS FOR THE COMING MONTHS. THE OPTIMISTS SEE ALREADY HOPEFUL SIGNS THAT THE INTERNATIONAL ECONOMIC SITUATION IS IMPROVING AND THAT COLOMBIAN EXPORTS WILL RECOVER MUCH OF THE BUOYANCY OF RECENT YEARS. THEY BELIEVE THE LOPEZ ADMINISTRATION'S LIMITED OFFICIAL USE

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STABILIZATION PROGRAM WILL PROVIDE FUTURE BENEFITS MORE THAN OUTWEIGHING CURRENT SACRIFICES. THEY ATTEMPT, IN SHORT, TO LOOK BEYOND THE IMMEDIATE SITUATION. THE PESSIMISTS REFUSE TO RELY ON HOPED FOR IMPROVEMENTS IN THE INTERNATIONAL ECONOMIC SITUATION WHICH MAY OR MAY NOT MATERIALIZE OR ON POSSIBLE LONG-TERM BENEFITS FROM GOC POLICIES. WHEREAS THE OPTIMISTS BELIEVE THAT THE LOPEZ ADMINISTRATION'S ECONOMIC MEASURES DESERVE MORE TIME BEFORE THEY CAN BE GIVEN A FAIR JUDGEMENT, THE PESSIMISTS BELIEVE THE EVIDENCE IS ALREADY CLEAR THAT THE MEASURES HAVE FAILED.

12. THE CONSULATE OBSERVED LAST NOVEMBER THAT THE LOPEZ GOVERNMENT WAS ENJOYING A TENTATIVE AND UNSPECIFIED PERIOD

OF GRACE, BUT THAT ITS TEXTBOOK ECONOMIC MEASURES HAD BEST
RESULT RATHER QUICKLY IN ECONOMIC RECOVERY AND EXPANSION. THE
PERIOD OF GRACE IS RAPIDLY COMING TO A CLOSE, AND THE MORE
TIME THAT PASSES WITHOUT SUBSTANTIAL INDICATIONS OF AN
ECONOMIC UPTURN, THE MORE FORCEFUL WILL BE THE OPPOSITION
IN ANTIOQUIA TO THE LOPEZ ADMINISTRATION'S ECONOMIC POLICIES.
THE ECONOMIC ELITES AND THEIR COMPANIES ARE HURTING NOW AND
THEY WANT RELIEF NOW. COOPER

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